



# Consumer Federation of America

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## **SENATE LEADERS FORCE VOTE ON ONE-SIDED BANKRUPTCY BILL --PRESIDENTIAL VETO EXPECTED --**

Washington, D.C.--Using a highly irregular legislative maneuver, Senate Majority leaders today bypassed bipartisan negotiations and forced a vote on legislation that is considerably more severe than that passed by the Senate in February. As a result, more Senators voted against bankruptcy legislation (28) than at any time previously. The conference report, which in its original form was authorizing legislation for the Department of State, passed the House on a voice vote in October. President Clinton has said that he will veto the bill.

“I thought I’d seen every trick in the book, but substituting one-sided, secretly negotiated bankruptcy legislation for a State Department bill is shameful,” said retired Senator Howard M. Metzenbaum, the chairman of the Consumer Federation of America (CFA). “This shoddy legislative maneuver shows the lengths to which creditors will go to ram through harmful barriers to bankruptcy protection.”

“The more one-sided this bill becomes, the less Members of Congress like it,” said Travis Plunkett, CFA’s legislative director. “Every time the Senate votes on bankruptcy, the bill gets less support.”

The legislation (H.R. 2415) would place numerous additional restrictions on Americans who attempt to file for chapter 7 or chapter 13 bankruptcy (see attached). It does not require credit card issuers to provide debtor-specific information to consumers on their credit card billing statement about how long it would take them to pay off their balance at the minimum rate and what their total costs would be.

“Unlike the Senate’s 1998 bill, this legislation would not provide Americans with meaningful information to help them avoid bankruptcy,” said Plunkett. “This is another example of how the bankruptcy bill does not balance responsibility between working families and creditors whose practices have contributed to the rise in bankruptcies.”

A vast body of evidence links the rise in consumer bankruptcies in the 1990s directly to an increase in household debt, especially credit card debt. In 1999, however, increasingly cautious consumer borrowing forced credit card issuers to reduce their marketing efforts and extension of credit. As a result, personal bankruptcies in 1999 plunged by 112,000, the largest one-year decline on record. They have continued to decline for all three quarters of this year.

CFA is a non-profit association of more than 270 organizations which, since 1968, has sought to advance the consumer interest through advocacy and education.

## MAJOR FLAWS WITH BANKRUPTCY LEGISLATION

1. ***It would allow wealthy debtors to continue to retain expensive homes while filing for bankruptcy.*** The “homestead” provision would allow those declaring bankruptcy to retain homes of unlimited value in five states, as long as the debtor owned the property for two years before declaring bankruptcy. The states that this would be allowed in are Texas, Florida, Iowa, Kansas and South Dakota.
2. ***It would not provide Americans with meaningful information on their credit card billing statements to help them avoid bankruptcy.*** Such a disclosure, which was part of the Senate’s 1998 bill, would tell consumers how long it would take to pay off their balance at the minimum rate and what their total costs in interest and principle would be. The bill allows most lenders to provide only a very general statement on the credit card bill about the potential dangers of paying at the minimum rate and a toll-free number. Most people will not receive the kind of specific information that will encourage them to pay their balance off more quickly.
3. ***It would compromise the payment of high-priority debts after bankruptcy, such as child support and alimony, by increasing the amount of debt for which debtors are liable.*** The legislation creates many new types of “nondischargeable” debts that must be paid to credit card companies. It allows creditors to coerce “reaffirmation” agreements from debtors to remain legally liable for more consumer debts, by threatening to repossess essential appliances like refrigerators and washers. These provisions cover all people who file for bankruptcy, including those who meet the “means test” and qualify for chapter 7 bankruptcy. The bill does not include amendments that were offered to insure that parents and children owed support will prevail over the sophisticated collection departments of creditors.
4. ***It will make it harder for modest-income Americans to get financial relief in chapter 7 and increase the likelihood that they will lose their homes and cars in chapter 13 restructuring plans.*** The means test to determine which debtors can file chapter 7 bankruptcy (instead of chapter 13) is arbitrary and inflexible. It is based on IRS standards not drafted for bankruptcy purposes that do not take into account individual family needs for expenses like transportation, food and rent. It disfavors renters and individuals who rely on public transportation and unduly benefits higher income individuals with more property and debts. Moreover, the bill’s “cramdown” provision will make it much harder for families to use chapter 13 to save their homes and cars.
5. ***Onerous legal and paperwork burdens in the bill will disadvantage cash-strapped families who cannot afford a lawyer.*** The bill provides creditors, especially credit card companies, with a variety of new opportunities to file lawsuits challenging the discharge of debts; lawsuits that financially-pressed families will likely accede to because they cannot afford to challenge them. Cumbersome informational requirements will substantially increase the cost of accessing the system for families who are most in need of debt relief and financial rehabilitation. These paperwork requirements would apply to all debtors, even lower-income debtors.